

11/22/10 (6)

Christine Joyce

From: Lauren Rosenzweig [lsr57@comcast.net]
Sent: Thursday, November 18, 2010 2:28 PM
To: Board of Selectmen
Subject: Fwd: An idea

FYI--this was part of the discussion at ALG this morning. Xuan Kong will be putting together a slide presentation to present it to the local school committee tonight. On December 2 the Regional School Committee meets, and only they can vote to change the Regional Assessment. I wanted our Board to see the thought process prior to it being presented to the schools tonight. We, the BOS, will discuss it on Monday night.

Lauren

Begin forwarded message:

Begin forwarded message:

From: Lauren Rosenzweig <lsr57@comcast.net>
Date: November 17, 2010 11:21:07 PM EST
To: Mary Ann Ashton <MABAshton@aol.com>
Subject: An idea

Hi Mary Ann,

I re-read your narrative of the Waterfall, which was created to address any deviation of estimated Chapter 70 and the actual amount we received. We started with a delta of \$1.2 million--700+300,000 is already appropriated and accounted for. This leaves +/- 200,000 left. Your calculations show this to be 288,000, which I will round to 290,000.

Based on the typical split, the town share is \$87,000, and the school share is \$203,000.

An "easy" logical remedy is to lower the school regional assessment to reach that amount (the 203,00) and the town meet the \$87,000. If we can accomplish this amount within the recap that would be a plus. If not, the lowering of the regional assessment may have to cover up to the full amount.

Does that make sense?

Lauren

11/19/2010

Christine Joyce

From: Lauren Rosenzweig [lsr57@comcast.net]
Sent: Wednesday, November 17, 2010 10:51 PM
To: Board of Selectmen
Subject: Fwd: Waterfall sheet

FYI--For discussion Monday night.

Begin forwarded message:

From: MABAshton@aol.com
Date: November 5, 2010 3:25:31 PM EDT
To: lsr57@comcast.net
Subject: Waterfall sheet

Here you go . . .

Here's my description of the waterfall - what it was intended to do, and how it's been implemented so far . . . as well as the sheet that I put together in September to explain. I think the bottom part of the sheet needs to be updated to account for taking the Ed Jobs, and ARRA grants out of the equation, and to account for the money freed up by the Region reducing the assessment as well as a more precise number on the shortfall for FY11 local receipts.

Let me know if you have questions.
Mary Ann

When we began to project state aid last year, we assumed that state aid for Chapter 70 would be 10 percent less than it had been the previous year. (This is also where we're starting with projecting state aid for THIS next budget year, so it's relevant to how we are to proceed.) When Governor Patrick announced his budget at the same level of Chapter 70 in January, people started trying to plan for various contingencies. Bill Mullin suggested the Waterfall as a way to cope with the uncertainty. If state aid was more than the 10 percent cut from the Governor's budget that we were expecting, there would be a plan about how to proceed. The local SC agreed to support the concept, and the BOS and Fincom did as well. In fact, when budgets were passed Chapter 70 was 4 percent less than the Governor's budget, so there was approximately \$1.2 million "in the waterfall." As shown on the attached sheet, which has been shared with the SC, BOS, and ALG, the first two steps were undertaken in the budgets that went to Town Meeting: \$300K to take care of the APS debt so this year's budget would not be burdened with this, and \$700K split 70/30 between schools and town, so cuts would not have to be enacted. This money, along with a \$96K share from the town budget, allowed the school committee to avoid \$1 million of personnel cuts right before Town Meeting.

CHAPTER 70 SCENARIOS

	January 27, 2010 ALG Assumption				
	FY10 Cherry Sheet - per ALG 11/16/09	FY11 - Reduce 10% from FY10	FY11 Cherry Sheet - Est from Gov H2	FY11 - Reduce 5% from H2	FY11 - Final Voted State Budget
Acton					
Ch70	\$ 5,123,578		\$ 5,480,709	\$ 5,206,674	\$ 5,160,527
SFSF Stimulus, Ed Jobs					
Subtotal Ed Aid	\$ 5,123,578		\$ 5,480,709	\$ 5,206,674	\$ 5,160,527
All else*	\$ 1,409,578		\$ 1,423,382	\$ 1,352,213	\$ 1,357,506
Subtotal	\$ 6,533,156		\$ 6,904,091	\$ 6,558,886	\$ 6,518,033
Less Assessments	\$ (225,654)		\$ (239,102)	\$ (239,102)	\$ (221,208)
Net Cherry Sheet	\$ 6,270,313	\$ 5,643,282	\$ 6,664,989	\$ 6,319,784	\$ 6,296,825

Acton-Boxborough					
Regional Revenue	\$ 5,733,300	\$ 5,159,970	\$ 6,806,843	\$ 5,772,074	\$ 5,722,960
SFSF Stimulus, Ed Jobs - Acton share (est)					
Subtotal for State Aid Revenues		\$ 10,803,252	\$ 13,471,832	\$ 12,091,858	\$ 12,019,785
*All else = General Govt Aid, School Lunch, Police Career Incentive, Veterans Benefits, State owned land, Exemptions, Libraries					

EXAMPLES OF HOW WATERFALL PLAN WOULD WORK

Waterfall Plan - increased State Aid revenues from January 27, 2010 ALG Assumption		Town Meeting - FY11 - Reduce 5% from H2		FY11 - Final Voted State Budget
Amount of increase		\$ 1,288,607		\$ 1,216,533
Step 1 - School debt	\$ 300,000	\$ 988,607		\$ 916,533
Step 2 - Ameliorate cuts	\$ 700,000	\$ 288,607		\$ 216,533
Step 3 - Allocate to taxpayer	\$ 500,000	\$ -		\$ -
Step 4 - Allocate to reserves	\$ 400,000	\$ -		\$ -
Step 5 - Ameliorate cuts				

Discussion Scenario: IMPLEMENTATION OF WATERFALL PLAN - September 2010

Steps 1 and 2 Completed and presented to Annual Town Meeting
Step 3 will be completed as part of the tax-setting process in December 2010.

		Town Meeting - FY11 - Reduce 5% from H2		FY11 - Final Voted State Budget
Step 3 - how much is available to allocate to taxpayer?		\$ 288,607		\$ 216,533
Less shortfall in local receipts ~	\$150,000	\$ 138,607		\$ 66,533
New funds available from SFSF, EdJobs (see attached detail memo from Acton/AB Schools)				
Acton - SFSF	\$27,704			
Acton - Ed Jobs Grant	\$353,078			
Acton's share of AB SFSF	\$29,485			
Acton's share of AB Ed Jobs Grant	\$370,083			
Subtotal	\$780,349			

Christine Joyce

From: Steve Ledoux
Sent: Tuesday, November 16, 2010 3:39 PM
To: Christine Joyce
Subject: FW: Draft Fincom Point of View for FY12

Steven L Ledoux
Town Manager
472 Main Street
Acton, MA 01720
Telephone (978) 929-6611

When writing or corresponding, please be aware that the Secretary of State has determined that most email is a public record and, therefore, may not be kept confidential.

From: MABAshton@aol.com [mailto:MABAshton@aol.com]
Sent: Wednesday, November 10, 2010 5:06 PM
To: Board of Selectmen; Acton Public School Committee; Steve Ledoux; Steve Mills
Cc: Finance Committee
Subject: Draft Fincom Point of View for FY12

Dear Members of the School Committees and Board of Selectmen, Town Manager Ledoux, and Superintendent Mills,

Last night the Finance Committee discussed the attached draft of our Point of View for the FY12 budget and voted in favor of the following motion:

That the Finance Committee adopt the....First Draft Point of View with Respect to Budget Planning for FY2012 (the "FY 2012 Point of View") and, further, that the FY2012 Point of View be transmitted to all relevant interested parties, as determined by the Chair, with an invitation to comment.

Through our discussion, we concurred that the complete document represents a breadth of opinions on the budget that are held by the Finance Committee members. We'd welcome your response to our Point of View before our next meeting on Tuesday, November 30, when we expect to finalize and distribute more broadly to the public.

In the past, the POV has focused on the current year (FY12) and contemplated the potential revenues, requirements of the bottom line budgets, and appropriate use of reserves. This year, however, the unresolved funding for the Waterfall Proposal agreed to as part of the FY11 budgets has overshadowed this clarity. As a result, we have incorporated language to resolve the issue as part of the construct of the FY12 budgets in order to insure taxpayers that their interests are represented fairly.

To be precise, \$500,000 of tax relief is the target to fulfill promises to the voters at Town Meeting which were implicit in the plans we presented and the budgets that were approved. I would be remiss if I did not underscore the growing disappointment among my colleagues with the handling of the Waterfall proposal. As one of our members stated last night, "Everyone has received what they expected from the Waterfall except the taxpayer."

We will look forward to hearing your discussion at your next meetings and welcome questions you have in the meantime.

Mary Ann Ashton
Chair, Acton Finance Committee

Town of Acton Finance Committee
11/9/2010

FY2012 Finance Committee Point of View with Respect to the 2012 Budget Planning Process

Background

Intent

- ❑ This memorandum is intended to describe the Town of Acton Finance Committee's Point of View with respect to planning for the FY2012 Town and School Budgets.
- ❑ As with prior FinCom Points of View, we invite comments back from the relevant operating boards and administrators.

The Overall Economy

- ❑ While the economy is technically not in a recession, growth is anemic. The current macro-economic climate is trending neutrally at a low performance level.
- ❑ Despite the technicality of not being in a recession, financial pressure on households is intense, arising from multiple sources such as high unemployment, long unemployment, foreclosures, reduced incomes, reduced hours of income generating activity, declining home values, sharply increasing health care costs, continuing rapid growth in college expenses and flat-level funding of Social Security, to name just a few.
- ❑ Jobs are the number one issue. For the last three months, the national unemployment rate has been 9.6%. The last time the rate was below 9% was April 2009, 17 months ago. The recovery, while in progress, will be much slower than we have seen with other recessions.
- ❑ There are some positive signs, if a bit hidden. Consumer confidence is low but has bounced off the bottom and is choppy trending up. Consumer debt has declined over the last two years, as households perform the heavy lifting of aligning debt levels with reduced incomes.
- ❑ Also, inflation is not a major factor in our current deliberations, and deflation is being attacked right now by an aggressive Federal Reserve program of purchasing securities.
- ❑ Given the recent political events on the national stage, it is highly unlikely that the same forms of "stimulus" that bolstered state and local revenues over the last two years will continue.
- ❑ Although the national economy is experiencing signs of recovery, local governments will continue to lag behind by 12 to 18 months and will be the last sector to emerge from recession.

State of Massachusetts Fiscal Picture

- ❑ Overall, the picture has improved from last year, but budget pressures remain intense.
- ❑ The size of the budget deficit at the State level for FY2012 is commonly targeted to be in the range of \$2 billion.
- ❑ The latest results on the referenda were mixed, with the elimination of the sales tax on alcohol (approximately \$125 million per year) being approved, but the reduction in the overall sales tax (approximately \$2 billion per year) being rejected.
- ❑ Some recent month over month DoR reports have showed better than anticipated results, which is exactly the opposite of last year at this time.
- ❑ Pressure on all Cherry Sheet revenues will be intense as the State attempts to maintain Chapter 70 school aid at current levels. The utilization of any remaining federal stimulus monies at the local level will not completely offset this pressure, especially in special education and transportation.
- ❑ Historically, when the state budget is strained, municipal finances are disrupted.
- ❑ (Please see at the end of this POV an up to date chart, entitled "Change in GDP vs. Change in State Aid" for some historical perspective.)

A Comment on FY2011

Last year, during a time of great volatility in state revenue projections, the Finance Committee proposed a policy now known as the Waterfall, which the Board of Selectmen and School Committees voted to approve and was used as part of the presentation at Town Meeting.

To our great good fortune, revenues came in far in excess of expectations. The Waterfall policy must be implemented this year to provide taxpayer relief as all Boards agreed last spring. Ample revenue sources are in place and must be allocated properly prior to the setting of the tax rate in December. If for some reason, the Waterfall policy does not get implemented, despite the availability of funds, the remaining amount calculated and due for property tax relief should be taken off the top before allocations according to the split.

Point of View with Respect to Acton's FY 2012 Budget

Current Reserves Assumptions

The following assumptions with respect to reserves were used in creating this document.

Reserve	Amounts from FY2011 POV (for Reference Only)	Approximate Amount for FY2012
Free Cash	\$2.3 million	\$4.7 million
NESWC Fund Balance	\$4.3 million	\$2.4 million
NESWC Environmental Damages Fund	N/A (not broken out separately)	\$1.0 million
E&D	\$1.0 million	\$1.44 million (Acton's share, including additional transportation aid for FY2011)
Overlay Undeclared Surplus	\$1.275 million	\$0
Allocation of Free Cash from October Special Town Meeting	N/A	(\$0.316) million
Total Reserves	\$8.875 million	\$9.224 million

There are some other atypical sources of restricted funds that should be noted:

Additional Source of Funds	Approximate Amount
ARRA Federal Grant	\$540k (Acton's share)
EduJobs Grant	\$698k (Acton's share)
Total Additional Sources of Funds	\$1.238 million

The Health Insurance Trust remains in strong shape. The latest report is as follows:

1. On a modified cash-flow basis, FY2011 continues to be a good year.
2. The trust is running a positive variance of \$500,923.
3. A draft audit for FY2010 showed a small operating loss, modestly exceeded by investment income, resulting in a slight increase in net assets to \$2.96 million.
4. Exclusive of Incurred but Not Recorded (IBNR) expenditures, the trust has over 20% net assets as a proportion of expenses.

The Current State of Acton Finance

- ❑ The financial management of the Town and Schools is well respected, as manifested by the AAA bond rating from Standard & Poor's Ratings Service.
- ❑ The Town of Acton's overall financial position is strong, due to prudent cost and expenditure controls.
 - The slate of major capital investments occurred in the late 90's and early 00's, so major infrastructure is in good condition and capacity is adequate for expected future needs.
 - The continuing investment via Community Preservation Act funding is a relief valve for what otherwise might increase pressure for capital investment.
- ❑ With respect to the balance sheet, Acton is in strong shape with substantial reserves. Balance sheet sources of cash, such as free cash, E&D and NESWC fund balances continue to provide latitude with respect to financial decisions, although, with an expected deficit of \$2.0 billion in state revenues and an expected halt to federal stimulus supports, this latitude is and will be under pressure.
- ❑ It is worth noting that the school system has received extraordinary cash inflows since our POV of last year (\$'s are all Acton's share):

○ Chapter 70 funding increase over initial budget:	+\$1,216k
○ One time adjustment of Transportation Aid	+\$ 491k
○ ARRA Federal Grant	+\$ 541k
○ EduJobs Grant	<u>+\$ 698k</u>
○ Total School Revenues Above Expectations	+\$2,946k
- ❑ With respect to the income statement:
 - Revenue from property taxes remains steady with no major delinquency trends appearing.
 - With respect to Fees collected, we are aware of no material change in trend.
 - Cost and spending control is a continuous focus. Each operating entity is managing budgets very conservatively.
 - The FinCom has confidence that the administrations of the operating entities understand the magnitude of the current fiscal problems and will vigorously take the appropriate actions related thereto.

Overall FY2012 Budget Planning

- ❑ The focus for FY2012 must be on control of labor costs.
- ❑ The operating entities should target a 0% increase in the FY2012 budget over the FY2011 budget, exclusive of health insurance costs.
- ❑ To be more specific, the operating entities should target a 0% increase in total labor costs, exclusive of health insurance costs. For purposes of this note, labor costs include the costs of built in increases in compensation, such as steps and lanes and retirement bonuses.
- ❑ To achieve this objective, the operating entities must negotiate labor agreements that result in 0% increase in compensation costs. The efforts to increase the share employees pay for health insurance is a positive trend that must continue.
- ❑ The operating entities should continue strict hiring restrictions, not pay any bonuses, and allow attrition to reduce headcount where appropriate.
- ❑ It must be acknowledged that service level reductions, including layoffs, will be necessary to meet this goal.
- ❑ There is no need for an operating override and no other override (capital or debt exclusion) is on the horizon.
- ❑ Capital plans should focus on maintaining existing assets and, if essential, should be funded within Proposition 2 ½ limits, unless the dollar cost of the essential need is simply too large.
- ❑ No more than \$2 million in reserves should be allocated to plug the revenue gap in the budget. Prudently this will leave approximately \$7.2 million in the primary reserves of Free Cash, E&D and NESWC Fund Balance accounts.

As noted above, if for some reason the Waterfall policy does not get implemented, despite the availability of funds, the remaining amount calculated and due for property tax relief should be taken off the top before allocations according to the split.

Driver Expectations

- ❑ Labor Costs. Labor costs comprise more than three quarters of our total budget.
 - From 2007 to 2010, compensation costs have escalated rapidly; in part because of rapidly escalating health insurance costs and in part due to collective bargaining agreements which were made when economic times were better.
 - For example, a typical teacher with a Masters Degree plus 15 years of experience saw their salary increase 24% from 2007 to 2010 which is an average of about 8 % per year. Health Insurance costs escalated at about that same rate. A typical Police/ Fire dispatcher saw their salary increase by 6.5% over the same period which is about 2.2% per year. However they too would have seen health insurance costs increase at the 8% per year level driving up the total compensation costs.
 - The continuing increases in labor costs that have occurred over the last several years are unsustainable.
 - The straight facts are that our current employees will need to make a choice about whether there will be reductions in force or lower overall compensation.
 - The operating entities should target a 0% increase in total compensation, exclusive of health insurance costs.
- ❑ Morale and the Future. We must acknowledge the extraordinary work, effort, spirit and competence of our employees. Our Town's success in all dimensions would not occur without their capabilities and steady work. The Great Recession and the constant drumbeat for lower compensation levels wear on our employees. We must recognize their discomfort and work to ensure that they understand the reasons for these tight budgets. Further, in the future, as in the past, staff must be encouraged to believe that the citizens of the Town of Acton will be ready to support very competitive compensation levels when the circumstances change again, as surely they will.
- ❑ Personnel. Growth in personnel for both major operating entities should be tied into the settlements of labor negotiations. With limited dollars available for labor costs, any increase in individual compensation will need to be offset by changes in other elements, such as headcount.
- ❑ Benefits adjustment. Of course, benefits are a component of overall compensation. Broadly speaking, the benefits supplied to our employees are more favorable than in other communities to which we benchmark. Something has to give. The most notable area is with respect to Health Care reimbursement. The levels that the Town and Schools pay for employee health care must be reduced. Early Retirement Incentive for all employees should be examined and reduced, as this item is significantly mis-aligned with the compensation structures of the tax paying citizenry and other benchmarked communities.
- ❑ Chapter 70 funding is volatile. At this time, local aid allocated via the Chapter 70 formula should be budgeted at a level of 10% lower in FY2012 than for FY2011. This number is a placeholder at this time, pending better information.
- ❑ Health insurance expense. The Trustees of the Health Insurance Trust believe that underlying health inflation is running at about 9%. We do not have any information to contradict this assumption about costs, although the Trust itself is in strong financial position. This could be an area of savings as certainty increases.
- ❑ Utilities Expense. Utility costs should be level funded or reduced through energy efficiencies. Grant monies that become available should be focused on these goals.

Revenue Split

- ❑ Any unfulfilled obligations for FY2011 tax relief, pursuant to the FY2011 Waterfall policy should be deducted from revenues allocated to the schools and designated to FY2012 tax relief.

- ❑ Else, the revenue split in place should be maintained.
- ❑ As a lagging and nagging general principle, the “Town” side of the revenue split should increase over time. The Finance Committee should take on this critical issue and make recommendations to the operating entities.

Citizen Expectations with respect to Taxes and Services

- ❑ Revenue from property taxes is our most stable source. At this time, it is not prudent to consider a taxation level below the 2 ½% trigger point.
- ❑ The tax relief components of the Waterfall public policy should be implemented.
- ❑ It is very likely that taxpayers will face increased difficulty in paying taxes, so all abatement programs must be actively advertised.
- ❑ Similarly, other Town and School services that can provide support for vulnerable citizens, including transportation and health services, should be highlighted and marketed aggressively.
- ❑ Citizens should be prepared to experience service reductions in the short term as the policies of the operating entities engage. Similarly, all citizens should be aware that the capacity to respond to requests not contemplated in the annual budget will be limited in order to preserve flexibility necessary to accommodate the changing economic picture.

